Poloz says interest rates put in place after oil shock have ‘done their job’

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Interest rate cuts in 2015 have done their job and the Bank of Canada needs to consider its options as excess capacity in the economy is used up, Bank of Canada Governor Stephen Poloz said on Wednesday in a CNBC interview in Europe.

Poloz said Canada had unexpectedly strong growth in the first quarter and that while the central bank expects growth to slow moderately, it will not slow down dramatically.

“It does look as though those cuts have done their job. But we’re just approaching a new interest rate decision so I don’t want to prejudge,” he said in the interview.

“But certainly we need to be at least considering that whole situation now that the capacity excess capacity is being used up steadily.”

The Bank of Canada cut rates twice in 2015 to counter the effects of an oil price shock that sideswiped the Canadian economy. In recent weeks policymakers have shifted to a more hawkish stance, and many economists expect a rate hike before the end of the year.

Chances of a Bank of Canada rate increase in July rose to 43 per cent on Wednesday from 30 per cent the day before, while the loonie surged to a four-month high after the hawkish comments by Poloz.

Poloz said every major region is gathering momentum and the synchronized growth phase is a positive, though everyone is in a different phase of the business cycle.

“The U.S. obviously way out in front. Canada some distance, perhaps as much as two years behind, given the oil shock. And then a little bit behind of course Europe. So but we are all there for grappling with the same issues in sequence. Well you know that’s good for collaboration,” he said.

Poloz also said that uncertainty about NAFTA has been weighing on business investment, adding that the trade agreement between Canada, the United States and Mexico is a critical tool in Canada.

“By my understanding the actual negotiations will start later this summer and that they’re all hoping for it to be relatively speedy. It suggests that they’ve got a tight agenda. And so let’s keep our fingers crossed on that, that it’s not a long, drawn-out process because of this, that it is a headwind,” Poloz told CNBC.

He also said the Federal Reserve’s rate hiking cycle is fundamentally good news because it means the U.S. economy is strengthening further, which is good news for Canada.